GOVERNOR ARNOLD SCHWARZENEGGER

August 25, 2009

Mr. Akio Toyoda
President
Toyota Motor Corporation, Inc.
1-14-18 Koraku
Bunkyo-ku, Tokyo 112-8701
Japan

Dear Mr. Toyoda,

We are pleased to present California's automotive manufacturing incentive proposal, a package that was developed through the joint efforts of governmental and industry leaders to improve NUMMI's cost structure and the overall business climate for automobile manufacturing in California. The package lists projects recently completed, such as transportation corridor improvements, as well as measures underway to improve the productivity of NUMMI and its suppliers. Some measures, such as the NUMMI onsite intermodal rail ramp, have become top state priorities and only require Toyota agreement to proceed.

We outlined additional steps aimed at strengthening the relationship between Toyota and California. Legislative measures have been introduced to increase Toyota's share in the large California market, and our state and local partners would like to advance our mutual interests through boosting collaboration between Toyota and our major public and private research institutions.

Just as the NUMMI joint venture between Toyota and General Motors represented a historic partnership at a critical time in trade relations between Japan and the U.S., we are again at a point where international public-private sector collaboration will produce significant beneficial results not only for California, but the auto industry and the world. NUMMI is the only major automobile production facility in the California market, and there are important strategic advantages to Toyota that have not been previously realized. Therefore, we respectfully request your consideration of our proposal along with our commitment to continue working with you through this period of tremendous industry change.

Sincerely,

Governor Arnold Schwarzenegger Supervisor Scott Haggerty Mayor Bob Wasserman

cc: Mr. Yoshimi Inaba, President and Chief Operating Officer, Toyota Motor North America, Inc.
Mr. Kunihiko Ogura, President and Chief Executive Officer, NUMMI

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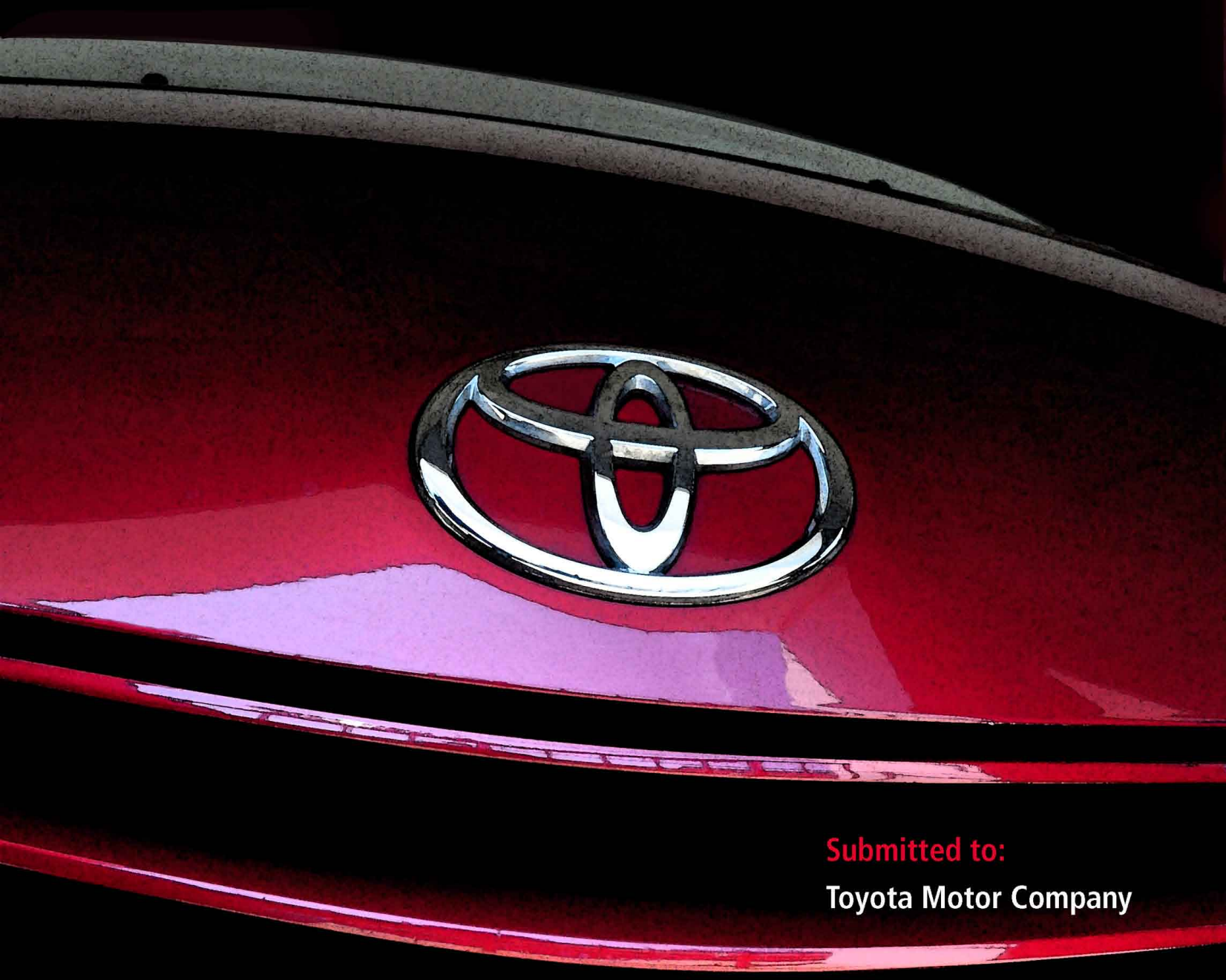
Restoring California's Automotive Industry

Maintaining Toyota's Automotive Manufacturing Leadership in California



Submitted to:

Toyota Motor Company

Submitted by:

City of Fremont

County of Alameda

State of California

Restoring California's Automotive Industry

Maintaining Toyota's Automotive Manufacturing Leadership in California

I. Introduction

In these difficult economic times, the State of California faces significant financial stress and is deeply concerned about revitalizing its automotive industry. The recent struggles of New United Motor Manufacturing Inc. (NUMMI), the country's largest auto and truck manufacturing facility west of Texas, clearly indicate the urgency of the situation and the extent of the difficulties facing the industry throughout the state. For this reason, the Governor's Office has assembled a special "Red Team," including State, local government, private sector, and other officials, to intensively examine and take action in relation to all aspects of the situation, with special attention to those issues facing NUMMI and its supplier network in the areas of:

- Improving logistics;
- Reducing operating costs;
- Improving productivity;
- Stewarding the environment;
- Reducing costs for capital improvements to the plant;
- Enlarging the supplier network in California; and
- Increasing sales of vehicles manufactured in California.

Recognizing the importance of NUMMI not only to the state of California but also to the bilateral strategic initiatives linking the United States and Japan, the Red Team is prepared to engage in a vigorous effort to ensure that Toyota enjoys the most favorable conditions possible to continue NUMMI operations. Table 1 briefly outlines some of these planned actions. Several require Toyota cooperation and legislative action.

Table 1

Action	Timeframe
$20 M NUMMI onsite intermodal rail ramp	July 2010 with Toyota approval
BART Warm Springs Station	2015
Elimination of sales tax on machinery and equipment for the manufacture of Low Emission Vehicles	Pending decision by State Treasurer
$10 M annual Automobile Manufacturing Retention Tax Credit	September 2009
Elimination of sales and use tax on machinery and equipment	September 2009

Table 1	
Action	**Timeframe**
State fleet purchase preferences for NUMMI manufactured vehicles	September 2009
$5 M energy cost reduction over five years for eligible NUMMI suppliers	Decreasing, five-year sliding scale for eligible companies
Direct Access energy rate savings for suppliers	Pending legislative action
Lower cost self-generated energy for NUMMI and its suppliers	Feasibility planning assistance available immediately
$29 M in low interest federal Recovery Bond loans from local government allocations with additional State allocation likely available	Pending application and processing time
$150 M improvements and realignment of Highways 152 and 101	Currently under study
Barge service between the ports of Oakland and Stockton	Federal funding under development
Workforce training funds through the Automotive Investment Program	Pending application for funds
Custom career technical education program	Pending NUMMI requirements for program

This work builds on previous State and local efforts to attract investment and improve operating conditions for NUMMI and its suppliers. Table 2 summarizes the work undertaken to date.

Table 2	
Investment	**Result**
$5.4 B in transportation corridor improvements to I-580, I-205, I-880, and I-680	(See map for projects completed, approved and under consideration)
Donner Summit Phase 1 rail corridor improvements	Transportation cost savings; faster, more reliable rail shipments to and from the rest of the country
$1.77 M in PG&E funded NUMMI plant improvements over the past five years	$1.4 M in annual cost savings to NUMMI from investments over the past five years and an additional $522,000 in annual

Table 2	
Investment	**Result**
	savings from three current projects
$5 M for the current year with over $13 M of ETP funding invested since 2003 for workforce training	Continuous workforce skills upgrade

This package does not include labor agreements, which are not within the purview of the State, but it does include new programs that demonstrate the seriousness with which the State, the region, the City and other partners are invested in supporting the auto industry in California. The programs below address the need to continue to develop a more competitive environment for California automobile manufacturers as well as to create a partnership between manufacturers and the state's large, innovative, trend-setting market. We welcome the opportunity to make Toyota the central partner in that effort.

II. Improving logistics for just-in-time manufacturing

The introduction of just-in-time manufacturing at NUMMI twenty-five years ago significantly increased the economic importance of the State's freeway infrastructure. Conscious of the increased importance of transportation to business operations as exemplified by the NUMMI plant, State, regional and local authorities have placed a high priority on not only improving roadway infrastructure, but also on providing viable rail and water transport alternatives. These include:

Interstate transportation corridor improvements

I-580, I-205, I-880, I-5 and I-680: Seventy-seven projects totaling $5.4 billion have either been completed, approved or are under consideration along these key transportation corridors serving the NUMMI plant. These improvements will reduce congestion and improve reliability for just-in-time deliveries to businesses along these corridors (see map).

Westbound and eastbound truck bypass lanes on I-580: The westbound truck bypass lanes have been completed at a cost of $31 million. The eastbound lanes are currently under development. These improvements will improve the flow of goods to and from the Central Valley.

Realign Highways 152 and 101: Improvements currently under study for these corridors are estimated at $150 million and would provide an improved alternative to I-580 as a route to reach the East Bay from the Central Valley.

Rail Improvements

Donner Summit- Phase 1: These improvements are well underway and are scheduled to be completed during

the first quarter of 2010. They will enable longer, double-stack container trains to operate along the corridor; increase system flexibility by providing an alternative to the Feather River corridor; shorten the travel distance by 73 miles; reduce fuel consumption; and significantly reduce travel time between the Bay Area and Chicago.

NUMMI onsite intermodal rail ramp: In consideration of the importance of the NUMMI facility to California's automotive manufacturing industry, the State is prepared to create an intermodal facility at the NUMMI plant. This would allow the Union Pacific Railroad to provide dedicated rail service between Lathrop and the NUMMI plant, reducing pollution and congestion on the freeways serving the plant. The project, estimated at $20 million, would allow NUMMI to receive container shipments from the Midwest by rail, thus reducing dependency on truck deliveries vulnerable to traffic congestion. It would also improve reliability of service and reduce NUMMI logistics costs. The State is applying for Federal Department of Transportation "TIGER" funding for this project and expects an allocation decision by January 2010. The project is estimated to take six months to complete.

International Shipping Service Improvements

Accommodating the latest generation of container ships: Dredging to 50 feet, measured at the lowest tides, has been completed for all channels of the Port of Oakland's Outer Harbor. Dredging of the Middle Harbor channel to the same depth will be completed by the end of the year. The 50-foot depth enables first-port-of-call service from Asia for the latest generation of container ships. There are no issues with dredging depth for the carriers NUMMI utilizes.

Barge service between the Port of Oakland and Port of Stockton: Planned improvements to expand barge service between the Port of Oakland and Port of Stockton will provide an "Inland Marine Highway" for NUMMI suppliers in the Central Valley to receive or ship component parts.

III. Reducing operating costs for NUMMI and its suppliers

Energy Costs

Cash rebates: PG&E rebates estimated at over $600,000 will be provided for two projects currently under development at the NUMMI plant and a third project scheduled for the end of the year.

Energy cost reductions: The PG&E projects referenced above are expected to reduce NUMMI's energy bills by $520,000 per year. Over the past five years, PG&E has provided approximately $1.77 million to help NUMMI achieve an annual energy cost reduction of $1.4 million.

Incentive rates for suppliers: PG&E and Southern California Edison have already begun working with NUMMI suppliers to explore their eligibility for Schedule ED incentive rates available to companies threatened with closure. ED

rates could lower energy costs at large NUMMI suppliers by approximately $5 million during a five-year period.

Direct Access (DA): This option allows NUMMI to purchase potentially cheaper electricity from a third party, with PG&E transporting power over the existing grid. The State Legislature is considering a limited re-opening of the program that would allow NUMMI suppliers to take advantage of this option as well.

Self-generation options: PG&E and Southern California Edison will continue to work with NUMMI and its suppliers to examine self-generation options to achieve further savings.

Workforce Development

The Employment Training Panel (ETP): ETP has committed $5 million for NUMMI training this year and will support further training at NUMMI and its suppliers if additional funds are necessary to retain workers at the plant. Since 2003, ETP has provided NUMMI with over $13 million for workforce training.

Automotive Investment program: The Labor and Workforce Development Agency will work with NUMMI to access some of the $25 million in workforce training resources available under the Automotive Investment program of the American Recovery and Reinvestment Act.

Custom career technical education program: The Alameda County Workforce Investment Board, Ohlone Community College, and Fremont Adult School will work with NUMMI to design a career technical education program to prepare future workers for entry-level production positions and to reduce recruitment costs for the plant.

Environmental Stewardship

The "Environmental Excellence Partnership": The creation of the Environmental Excellence Partnership was made possible by NUMMI's past record of environmental excellence and the positive relationship established between NUMMI and Bay Area Air Quality Management District (BAAQMD) staff. This unique collaborative partnership between NUMMI and BAAQMD seeks industry input, and reduces industry uncertainty regarding future compliance standards.

Truck incentive programs: BAAQMD will assist NUMMI and its suppliers in obtaining funding available to bring trucks up to Air Resources Board standards.

Compatible adjacent land uses: The City of Fremont considers NUMMI to be an extremely important contributor to the economy and will continue to work collaboratively with NUMMI to achieve compatible adjacent land uses.

Bay Area Rapid Transit (BART) system - Warm Springs station: A new BART station at Warm Springs will provide a public transit option, improve commute reliability for NUMMI employees, reduce on-road vehicle emissions, and enhance NUMMI's access to the Bay Area's airports and central business districts. The extension is anticipated to open in 2015, and is considered to be the first stop on a new BART extension to San Jose.

Transportation Fund for Clean Air (TFCA): BAAQMD will assist NUMMI in obtaining funds for shuttles, vanpools, and regional rideshare projects that reduce on-road motor vehicle emissions. For FY 2009/10, TFCA will provide an estimated $4 million in funds to be distributed on a competitive basis for these types of projects.

Plant and Equipment

Potential elimination of all California sales tax on machinery and equipment for manufacturing Low Emission Vehicles: The State Treasurer's Office is now considering the elimination of all State sales tax on machinery and equipment, without limitation on the amount of annual investment, for the manufacture of hybrids and Low Emission Vehicles. This provision of the California Alternative Energy & Transportation Authority program currently only applies to Zero Emission Vehicles, but would include Toyota Corollas if expanded to include Low and Ultra Low Emission vehicles.

Motor Vehicle manufacturing incentives: The California State Legislature has introduced legislation this year to establish special tax incentives to stimulate motor vehicle manufacturing in California. Proposals include: sales and use tax exemptions for equipment purchased by NUMMI; an "Automobile Manufacturing Retention Tax Credit" providing a credit of up to $10 million per year; as well as requirements for State purchase of cars and trucks produced at NUMMI.

Low interest loans and tax rebates for capital projects: $29 million in low interest loans and tax rebates are offered to NUMMI for plant capital projects and infrastructure by the City of Fremont and the County of Alameda from their allocation of U.S. Department of Treasury "Recovery Bonds." It is anticipated that, as needed, an unspecified amount of additional funding will become available from California's total allocation.

IV. Attracting suppliers to the state

Over 1,000 suppliers located throughout the state provide support to automobile manufacturing at NUMMI. Local economic development leaders in each community are participating in the Red Team's statewide effort on behalf of the auto manufacturing industry and are evaluating the measures available to suppliers in their areas to increase operating efficiency. Programs available in many communities include:

- Sales and Use Tax Credit on machinery and equipment;
- Funding for job training or tax credit for the direct cost of retraining;
- Accelerated depreciation on capital investment for plant investment;
- Pre-zoned, "shovel-ready" sites, ready for immediate construction; and
- Expedited local and state permit processes.

The Red Team will work with each community to assist new and existing

suppliers in accessing all technical, financial and other assistance programs available to California manufacturers to improve productivity and reduce costs.

Southern California Edison will work with the suppliers in their service territory to ensure that these suppliers are optimizing their energy efficiency potential and participating in cost-reduction, demand response programs where feasible. They will also provide economic development resources to organize regional stakeholders and to develop programs and measures to reduce supplier operating costs in their current locations. In the long-term, these measures should make the entire state more competitive in attracting additional automotive manufacturing suppliers.

V. Policies under consideration to increase market share for California produced, environmentally benign vehicles

California has been a national leader in technology innovation, protecting the environment, and finding solutions to the major issue facing our generation -- climate change. Public support, scientific resources, and capital investment have made California the nation's leader in biofuels R&D, solar photovoltaic technology, and a number of "smart" and "clean" technologies. The need to address climate change and the presence of a wealth of resources at the same time California is addressing the need to support the auto industry all suggest a unique opportunity to collaboratively address critical global environment issues.

The ideas detailed below represent Red Team proposals to increase the market and profitability for motor vehicle manufacturing in California. The Alternative Fuel Vehicle Incentive program is currently operational, but would only benefit NUMMI if alternative fuel vehicles were manufactured at the plant. The other proposals listed below will require legislative action.

The Alternative Fuel Vehicle Incentive Program: This program provides cash incentives to purchasers of battery electric and fuel cell vehicles ($5,000 each), neighborhood electric vehicles ($1,500 each), plug-in hybrids ($5,000 each), compressed natural gas vehicles ($3,000 each), and zero emission motorcycles ($1,000 to $1,500 each).

Waiver of first year DMV registration costs: A waiver for vehicles produced in the State would encourage the environmentally sound practice of purchasing locally, simultaneously strengthening the California automotive industry.

State and local purchase preferences: Government policies which give preference to vehicles produced in California will provide incentives to fleet purchasers to also purchase locally.

Transfer of High Occupancy Lane stickers: Allowing owners of vehicles with High Occupancy Lane stickers to transfer the sticker privilege to an

eligible new car would allow owners who have already demonstrated a higher concern for environmentally benign vehicles to upgrade their vehicles to newer and more efficient cars.

A sample of the R&D resources available to the automotive industry is presented in the following section.

VI. Research and Development and technical support for advances in low emission and alternative fuel vehicles

In the 1980s, NUMMI was an important, concrete expression of policies aimed at fostering greater industrial cooperation between the United States and Japan. Today, Japan and the U.S. are collaborating on an even graver issue, developing cooperative industrial strategies to respond to global climate change. With Toyota's commitment to environmental principles and with California's resources for developing clean technology, NUMMI is once again strategically positioned to play an historic role in realizing the mutual, global objectives of these two countries.

Innovation and New Product Development

California is known for its market development and leadership in technology, design, lifestyle and creativity, and the NUMMI plant is located in the center of the San Francisco Bay Area, California's most innovative region. This region includes not only the businesses and entrepreneurs of "Silicon Valley," but also the largest concentration of venture capital firms in the world.

Supporting this highly successful commercial technology development are five major research universities, each with over $500 million in annual research funding, led by the University of California-Berkeley and Stanford University. Complementing these universities are four Department of Energy National Laboratories with several billion dollars more of combined annual operating budgets. This concentrated research cluster offers more expertise in more fields of excellence than any other region of the world.

Researchers here have already been responsible for innovations in auto industry technology such as the industry standard computer simulation program that analyzes vehicle integrity in automobile crashes, and the inexpensive micro-impulse radar used for vehicle collision avoidance. Currently, public and private sector researchers are working on biodiesel created from algae, cellulosic ethanol created through synthetic biology, advanced materials with exotic characteristics constructed atom by atom, new hydrogen storage systems for motor vehicles, smart cars and highways, and a host of other technologies with potential for creating the next generation of automobiles. In fact, in 2008, California companies received over half of all U.S. venture investments in clean technology.

At Sandia National Laboratories, the Hub for Innovation in the Transportation Energy Community (HITEC) provides a wide range of research and development capabilities for the automotive industry. HITEC capabilities at Sandia's California Laboratory include the Combustion Research Facility with its focus on clean and efficient combustion, technical development of codes and standards for alternative energy strategies, hydrogen storage, and systems analysis of energy systems.

At Lawrence Berkeley National Laboratory, the Environmental Energy Technologies Division assists DOE in managing the battery research taking place not only at Berkeley Lab, but also at other National Laboratories and universities throughout a nationwide network. In 2008, Berkeley Lab received a prestigious R&D 100 award for its work developing a nanostructural polymer electrolyte. This technology is now being used by a spinoff company, Seeo, Inc., to manufacture lithium ion batteries with a solid polymer electrolyte.

Lawrence Livermore National Laboratory (LLNL) has been a leader in the development of zinc air batteries and has successfully demonstrated these batteries in powering a city bus. Battery or fuel cell companies that have spun out from LLNL include Ultracell, Power Air, and Polystor.

In the private sector, Applied Intellectual Capital (AIC) is developing a bi-polar lead-acid battery that is safe, cost-effective and provides weight and efficiency advantages that make it well suited for 42 volt systems. Another company, Limnia, has developed solid-state hydrogen fuel cells that can power an automobile with a laptop-sized fuel cell pack.

The Red Team stands ready to introduce Toyota scientists to these and other research institutions and companies throughout the state in order to facilitate a partnership between California's advanced research and Toyota's world leadership in automotive development.

Research and Development Tax Credit

Designed to encourage businesses to increase their basic research and development activities in California, the research and development tax credit allows companies to receive a 15 percent credit against their bank and

corporation tax liability for qualified in-house research expenses, and a 24 percent credit for basic research payments to outside organizations. Qualified research expenses generally include wages, supplies and contract research costs. To qualify, a taxpayer's research must be conducted within California and include basic or applied research, original investigation for the advancement of scientific or engineering knowledge or improved function of a business component.

Funding for Manufacturing and Production of Alternative Fuels Vehicles

The California Energy Commission (CEC) will assist NUMMI in securing AB 118 funding for manufacturing and production of alternative fuels vehicles. The program has an annual appropriation of $120 million.

Contact Information

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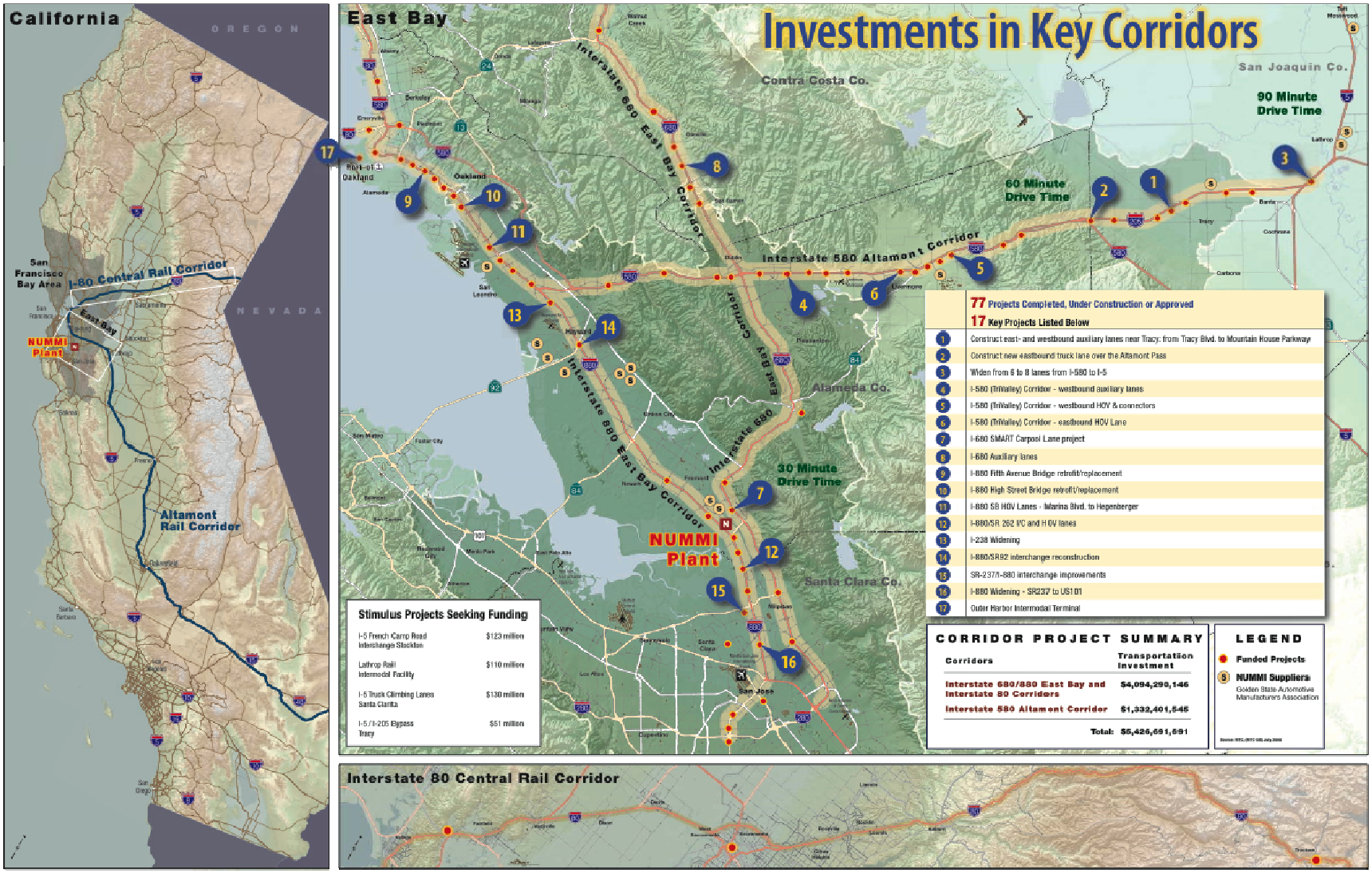
California
OREGON
NEVADA
San Francisco Bay Area
I-80 Central Rail Corridor
East Bay
NUMMI Plant
Altamont Rail Corridor
East Bay
Investments in Key Corridors
Contra Costa Co.
San Joaquin Co.
90 Minute Drive Time
60 Minute Drive Time
30 Minute Drive Time
Interstate 680 East Bay Corridor
Interstate 580 Altamont Corridor
Interstate 880 East Bay Corridor
Alameda Co.
Santa Clara Co.
NUMMI Plant
77 Projects Completed, Under Construction or Approved
17 Key Projects Listed Below
1 Construct east- and westbound auxiliary lanes near Tracy: from Tracy Blvd. to Mountain House Parkway
2 Construct new eastbound truck lane over the Altamont Pass
3 Widen from 6 to 8 lanes from I-580 to I-5
4 I-580 (TriValley) Corridor - westbound auxiliary lanes
5 I-580 (TriValley) Corridor - westbound HOV & connectors
6 I-580 (TriValley) Corridor - eastbound HOV Lane
7 I-680 SMART Carpool Lane project
8 I-680 Auxiliary lanes
9 I-880 Fifth Avenue Bridge retrofit/replacement
10 I-880 High Street Bridge retrofit/replacement
11 I-880 SB HOV Lanes - Marina Blvd. to Hegenberger
12 I-880/SR 262 I/C and HOV lanes
13 I-238 Widening
14 I-880/SR92 interchange reconstruction
15 SR-237I-880 interchange improvements
16 I-880 Widening - SR237 to US101
17 Outer Harbor Intermodal Terminal
Stimulus Projects Seeking Funding
I-5 French Camp Road Interchange Stockton $123 million
Lathrop Rail Intermodal Facility $110 million
I-5 Truck Climbing Lanes Santa Clarita $130 million
I-5/I-205 Bypass Tracy $51 million
CORRIDOR PROJECT SUMMARY
Corridors
Transportation Investment
Interstate 680/880 East Bay and Interstate 80 Corridors $4,094,290,146
Interstate 580 Altamont Corridor $1,332,401,545
Total: $5,426,691,691
LEGEND
Funded Projects
NUMMI Suppliers
Golden State Automotive Manufacturers Association
Interstate 80 Central Rail Corridor